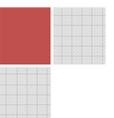


**INTERNATIONAL SERVICE FELLOWSHIP (USA)  
AUDIT REPORT  
FOR THE YEARS ENDED MARCH 31, 2016 AND 2015**

Morey Nee Buck & Oswald, LLC  
Certified Public Accountants & Advisors



INTERNATIONAL SERVICE FELLOWSHIP (USA)  
MARCH 31, 2016 AND 2015

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# Morey, Nee, Buck & Oswald, LLC

Certified Public Accountants and Advisors

## INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

Board of Trustees  
INTERNATIONAL SERVICE FELLOWSHIP  
Upper Darby, Pennsylvania

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the International Service Fellowship (a nonprofit organization), which comprise the statements of financial position as of March 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the International Service Fellowship as of March 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Morey, Nee, Buck & Oswald, LLC*

Morey Nee Buck & Oswald  
Spring House, Pennsylvania  
August 21, 2016

INTERNATIONAL SERVICE FELLOWSHIP (USA)  
STATEMENTS OF FINANCIAL POSITION  
AS OF MARCH 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Assets:		
Cash and cash equivalents	\$ 454,751	\$ 475,303
Receivables	8,047	-
Due from other funds	75,685	65,980
IAM Grant receivable	-	6,004
Prepaid expenses	16,715	39,348
Advances to field personnel	65,557	59,138
Inventory	23,234	27,047
Investments	13,671,662	14,245,084
Land, buildings and equipment	<u>301,682</u>	<u>300,925</u>
 Total assets	 <u>\$ 14,617,333</u>	 <u>\$ 15,218,829</u>
Liabilities and net assets:		
Accounts payable	\$ 52,946	\$ 53,987
Accrued payroll and taxes	82,722	84,438
Due to International Council	42,634	53,503
Line of credit	4,167	6,667
Accrued retirement	306,305	308,343
Accrued education benefits	350,421	359,846
Accrued defined contribution benefits	3,749,875	3,922,225
Annuity obligations	<u>131,680</u>	<u>135,000</u>
 Total liabilities	 <u>4,720,750</u>	 <u>4,924,009</u>
Net assets:		
Unrestricted	1,169,739	995,711
Temporarily restricted	888,233	1,077,277
Permanently restricted	<u>7,838,611</u>	<u>8,221,832</u>
 Total net assets	 <u>9,896,583</u>	 <u>10,294,820</u>
 Total liabilities and net assets	 <u>\$ 14,617,333</u>	 <u>\$ 15,218,829</u>

The accompanying footnotes are an integral part of the audited financial statements.

INTERNATIONAL SERVICE FELLOWSHIP (USA)  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Revenues and other support:				
Partner and home staff support	\$4,134,424	\$ 665,913	\$ -	\$4,800,337
Contributions to special fields	-	494,593	-	494,593
General ministries and board gifts	364,178	-	-	364,178
Outfitting	89,783	6,100	-	95,883
Foundations and legacies	116,169	-	-	116,169
Interest and dividend income	26,263	11,179	182,449	219,891
Commentary and book income	-	1,499	-	1,499
Other income	229,654	-	-	229,654
Principal additions	-	-	28,565	28,565
Net assets released from Restrictions	<u>1,790,896</u>	<u>(1,366,660)</u>	<u>(424,236)</u>	<u>-</u>
	<u>6,751,367</u>	<u>(187,376)</u>	<u>(213,222)</u>	<u>6,350,769</u>
Gains (losses):				
Gain (loss) from sale of investments	(62,908)	(5,738)	(364,568)	(433,214)
Unrealized gain (loss) on investments	<u>39,684</u>	<u>4,070</u>	<u>194,569</u>	<u>238,323</u>
	<u>(23,224)</u>	<u>(1,668)</u>	<u>(169,999)</u>	<u>(194,891)</u>
Total revenues, other support and gains (losses)	<u>6,728,143</u>	<u>(189,044)</u>	<u>(383,221)</u>	<u>6,155,878</u>
Expenses:				
Field operations	5,696,175	-	-	5,696,175
U S operations	721,306	-	-	721,306
Fund raising	<u>136,634</u>	<u>-</u>	<u>-</u>	<u>136,634</u>
Total expenses	<u>6,554,115</u>	<u>-</u>	<u>-</u>	<u>6,554,115</u>
Change in net assets	174,028	(189,044)	(383,221)	(398,237)
Net assets at beginning of year	<u>995,711</u>	<u>1,077,277</u>	<u>8,221,832</u>	<u>10,294,820</u>
Net assets at end of year	<u>\$1,169,739</u>	<u>\$ 888,233</u>	<u>\$7,838,611</u>	<u>\$9,896,583</u>

The accompanying footnotes are an integral part of the audited financial statements.

INTERNATIONAL SERVICE FELLOWSHIP (USA)  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Revenues and other support:				
Partner and home staff support	\$ 4,204,328	\$ 709,830	\$ -	\$ 4,914,158
Contributions to special fields	-	533,324	-	533,324
General ministries and board gifts	377,438	-	-	377,438
Outfitting	32,017	36,943	-	68,960
Foundations and legacies	67,311	-	-	67,311
Service charge	49,415	-	-	49,415
Interest and dividend income	22,521	15,698	157,459	195,678
Commentary and book income	3,659	1,095	-	4,754
Other income	104,900	-	-	104,900
Principal additions	-	-	56,180	56,180
Net assets released from Restrictions	<u>1,602,415</u>	<u>(1,233,261)</u>	<u>(369,154)</u>	<u>-</u>
	<u>6,464,004</u>	<u>63,629</u>	<u>(155,515)</u>	<u>6,372,118</u>
Gains (losses):				
Gain (loss) from sale of investments	10,722	(873)	179	10,028
Unrealized gain (loss) on investments	<u>85,085</u>	<u>8,548</u>	<u>510,615</u>	<u>604,248</u>
	<u>95,807</u>	<u>7,675</u>	<u>510,794</u>	<u>614,276</u>
Total revenues, other support and gains (losses)	<u>6,559,811</u>	<u>71,304</u>	<u>355,279</u>	<u>6,986,394</u>
Expenses:				
Field operations	5,456,072	-	-	5,456,072
U S operations	755,218	-	-	755,218
Fund raising	<u>242,239</u>	<u>-</u>	<u>-</u>	<u>242,239</u>
Total expenses	<u>6,453,529</u>	<u>-</u>	<u>-</u>	<u>6,453,529</u>
Change in net assets	106,282	71,304	355,279	532,865
Net assets at beginning of year	<u>889,429</u>	<u>1,005,973</u>	<u>7,866,553</u>	<u>9,761,955</u>
Net assets at end of year	<u>\$ 995,711</u>	<u>\$ 1,077,277</u>	<u>\$ 8,221,832</u>	<u>\$ 10,294,820</u>

The accompanying footnotes are an integral part of the audited financial statements.

INTERNATIONAL SERVICE FELLOWSHIP (USA)  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED MARCH 31, 2016

	<u>Field</u> <u>Operations</u>	<u>US</u> <u>Operations</u>	<u>Fund</u> <u>Raising</u>	<u>Totals</u>
Pension and supplemental payments	\$ 210,525	\$ -	\$ -	\$ 210,525
Furlough fund	107,980	-	-	107,980
Interserve administration	446,973	(446,973)	-	-
Retiree pension fund	66,187	-	-	66,187
Field expense	1,972,183	-	-	1,972,183
Home allowance and medical	1,438,799	-	-	1,438,799
Deputation	-	-	44,954	44,954
Short term expense	50,759	-	-	50,759
Candidate school expense	-	873	-	873
Outfitting	100,223	-	-	100,223
Mission house	-	18,915	-	18,915
U.S. director	108,326	-	10,000	118,326
Communication	-	31,098	14,462	45,560
Fundraising	-	-	52,902	52,902
Personnel	-	254,872	-	254,872
U.S. office	-	800,674	14,316	814,990
Payments of special funds	573,596	-	-	573,596
Payment to other councils	424,207	-	-	424,207
Pension fund expense	17,435	-	-	17,435
College reserve expense	25,025	-	-	25,025
J A Coles/ Hoyt expense	116,645	-	-	116,645
Legacy	37,312	-	-	37,312
Annuity	-	14,967	-	14,967
Area Director	-	46,880	-	46,880
	<u>                  </u>	<u>                  </u>	<u>                  </u>	<u>                  </u>
Total Expenses	<u>\$ 5,696,175</u>	<u>\$ 721,306</u>	<u>\$ 136,634</u>	<u>\$ 6,554,115</u>

The accompanying footnotes are an integral part of the audited financial statements.

INTERNATIONAL SERVICE FELLOWSHIP (USA)  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED MARCH 31, 2015

	<u>Field</u> <u>Operations</u>	<u>US</u> <u>Operations</u>	<u>Fund</u> <u>Raising</u>	<u>Totals</u>
Pension and supplemental payments	\$ 201,350	\$ -	\$ -	\$ 201,350
Furlough fund	129,932	-	-	129,932
Interserve administration	453,054	(453,054)	-	-
Retiree pension fund	40,679	-	-	40,679
Field expense	1,900,246	-	-	1,900,246
Home allowance and medical	1,305,984	-	-	1,305,984
Deputation	-	-	47,247	47,247
Short term expense	65,507	-	-	65,507
Candidate school expense	-	2,652	-	2,652
Outfitting	97,327	-	-	97,327
Mission house	-	14,162	-	14,162
Ethnoserve	2,989	-	-	2,989
U.S. director	117,520	-	-	117,520
Annuity	-	15,193	-	15,193
Communication	-	19,278	-	19,278
Fundraising	-	-	176,681	176,681
Personnel	-	211,630	-	211,630
U.S. office	-	793,419	18,311	811,730
Payments of special funds	539,268	-	-	539,268
Payment to other councils	445,885	-	-	445,885
Pension fund expense	15,439	-	-	15,439
College reserve expense	24,500	-	-	24,500
J A Coles/ Hoyt expense	116,392	-	-	116,392
Area Director	<u>-</u>	<u>151,938</u>	<u>-</u>	<u>151,938</u>
Total Expenses	<u>\$ 5,456,072</u>	<u>\$ 755,218</u>	<u>\$ 242,239</u>	<u>\$ 6,453,529</u>

The accompanying footnotes are an integral part of the audited financial statements.

INTERNATIONAL SERVICE FELLOWSHIP (USA)  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED MARCH 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (398,237)	\$ 532,865
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	30,364	28,187
Net unrealized (gain) loss on investments held	(238,323)	(604,248)
Net realized (gain) loss on sales of investments	433,214	(10,028)
(Increase) decrease in due from other funds	(9,705)	(9,971)
(Increase) decrease in receivables	(8,047)	-
(Increase) decrease in IAM grant receivable	6,004	17,208
(Increase) decrease in prepaid expenses	22,633	(15,925)
(Increase) decrease in advances to field personnel	(6,419)	7,109
(Increase) decrease in inventory	3,813	(11,867)
Increase (decrease) in accounts payable	(1,041)	(9,935)
Increase (decrease) in accrued payroll and taxes	(1,716)	(12,520)
Increase (decrease) in due to international council	(10,869)	16,427
Increase (decrease) in other accruals	(11,463)	(40,708)
Increase (decrease) in annuity obligations	(3,320)	(8,000)
Contributions restricted for long-term purposes:		
Contributions to permanently restricted	<u>(28,565)</u>	<u>(56,180)</u>
<b>Net cash provided (used) by operating activities</b>	<b><u>(221,677)</u></b>	<b><u>(177,586)</u></b>
Cash flows from investing activities:		
Purchase of equipment	(31,121)	(52,636)
Net money market activity in investment account	68,985	204,648
Purchase of investments	(4,380,380)	(4,949,187)
Proceeds from sale of investments	<u>4,517,576</u>	<u>4,967,684</u>
<b>Net cash provided (used) by investing activities</b>	<b><u>175,060</u></b>	<b><u>170,509</u></b>
Cash flows from financing activities:		
Collections of contributions restricted for long-term purposes:		
Permanently restricted	28,565	56,180
Payments on line of credit	<u>(2,500)</u>	<u>(2,500)</u>
<b>Net cash provided (used) by financing activities</b>	<b><u>26,065</u></b>	<b><u>53,680</u></b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(20,552)</b>	<b>46,603</b>
Cash and cash equivalents, beginning of year	<u>475,303</u>	<u>428,700</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 454,751</u></b>	<b><u>\$ 475,303</u></b>
Supplemental information:		
Interest paid	<u>\$ 184</u>	<u>\$ 262</u>

The accompanying footnotes are an integral part of the audited financial statements.

INTERNATIONAL SERVICE FELLOWSHIP (USA)  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2016 AND 2015

International Service Fellowship (USA) is the successor to BMMF International (USA) by change of name effective December 1986. The latter was incorporated as Bible and Medical Missionary Fellowship on September 25, 1964 under the Pennsylvania Nonprofit Law of May 5, 1933 pursuant to a decree of the Delaware County Court of Common Pleas. The Organization is supported primarily through donor contributions. The Articles of Incorporation, as amended, describe the purpose of the corporation in two parts which may be described generally as follows:

1. To make known the Gospel of Christ among the people of such countries as may be determined by (a) contributing to the deepening of the spiritual life of the churches in those countries, (b) training national Christians for spiritual leadership through the medium of seminaries, schools, hospitals, etc., and (c) engaging in related activities to support these ministries.
2. To minister to the needs of people in Asia with due respect to the dignity of individuals without respect to race, caste or creed, by (a) undertaking care and treatment of the sick, (b) providing care, relief and rehabilitation to orphans, aged, sick, blind, disabled and helpless persons, and (c) assisting in the development of corporations self-supporting at a low income level through improved agricultural methods, handicrafts and cottage industries.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***BASIS OF ACCOUNTING***

The financial statements of International Service Fellowship have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

***BASIS OF PRESENTATION***

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its statement, *Financial Statements of Not-for-Profit Organizations*. Under the standard, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

***CASH AND CASH EQUIVALENTS***

Cash and cash equivalents consist of cash held in checking and money market accounts and certificates of deposit with original maturities of 90 days or less.

***DONATED MATERIALS AND SERVICES***

Materials and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the date of receipt.

INTERNATIONAL SERVICE FELLOWSHIP (USA)  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2016 AND 2015

***USE OF ESTIMATES***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

***EXPENSE ALLOCATION***

Expenses are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

***INCOME TAX STATUS***

The Organization is exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code. Accordingly, no provision for federal or state income taxes is reflected in the accompanying financial statements.

In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b) (1) (A) and has been classified as an organization that is not a private foundation under Section 509(a) (2).

***INVENTORY***

Inventories are stated at the lower of cost or market determined by the first-in, first-out method.

***INVESTMENTS***

The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

***PROPERTY AND EQUIPMENT***

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method. The Organization's capitalization policy is to capitalize items over \$ 1,000.

***RESTRICTED AND UNRESTRICTED REVENUE AND SUPPORT***

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

INTERNATIONAL SERVICE FELLOWSHIP (USA)  
 NOTES TO THE FINANCIAL STATEMENTS  
 MARCH 31, 2016 AND 2015

***FAIR VALUE OF FINANCIAL INSTRUMENTS***

Fair Value Measurements defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States of America, and enhances disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework measuring fair value includes a hierarchy that prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1- Fair value is based on unadjusted quoted prices in active markets that are accessible to the Organization for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2- Fair Value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3- Fair value is based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

**2. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following at March 31:

	<u>2016</u>	<u>2015</u>
Cash in bank	\$ 454,426	\$ 475,178
Petty cash	<u>325</u>	<u>325</u>
	<u>\$ 454,751</u>	<u>\$ 475,503</u>

Throughout the year, the Organization has varying amounts of restricted cash in its bank account. Restricted cash is for special projects and other council partners as designated by the donor.

INTERNATIONAL SERVICE FELLOWSHIP (USA)  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2016 AND 2015

**3. ACCRUED EDUCATION BENEFIT**

Currently, International Service Fellowship partners reserve either \$50 or \$75 per month per child, depending on the child's age, for post high school education. International Service Fellowship acts as custodian for this fund. From this fund, the Organization will pay \$ 2,500 per year per student up to a maximum of \$ 10,000. Reserves begin accumulating when the family leaves for the field, or at birth for families who are already members.

**4. INVESTMENTS**

The basis of the reported assets is current market value.

	<u>2016</u>	<u>2015</u>
<u>Unrestricted:</u>		
General Fund	\$ 162,113	\$ 211,773
U.F.C.S. International Council	120,103	126,930
Furlough	529,601	531,000
College Fund	<u>691,043</u>	<u>693,843</u>
	<u>1,502,860</u>	<u>1,563,546</u>
 <u>Temporarily Restricted:</u>		
Annuity Fund	372,502	381,293
Commentary Fund	<u>16,775</u>	<u>15,986</u>
	<u>389,277</u>	<u>397,279</u>
 <u>Permanently Restricted:</u>		
Dilworth Fund	912,218	954,786
Girardeau Fund	280,167	284,514
General Ministries	20,105	20,076
Hoyt (Jhansi)	563,788	579,674
J. Ackerman Coles	2,253,359	2,379,033
Partnerseed Fund	<u>4,000,013</u>	<u>4,143,951</u>
	<u>8,029,650</u>	<u>8,362,034</u>
	9,921,787	10,322,859
Defined Contribution Plan	<u>3,749,875</u>	<u>3,922,225</u>
Totals	<u>\$ 13,671,662</u>	<u>\$ 14,245,084</u>

INTERNATIONAL SERVICE FELLOWSHIP (USA)  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2016 AND 2015

**4. INVESTMENTS (continued)**

The following schedule summarizes the investment return and its classification in the statement of activities:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Totals</u>	<u>2015 Totals</u>
Investment income	\$ 26,263	\$ 11,179	\$ 182,449	\$ 219,891	\$ 195,678
Realized gains (losses)	(62,908)	(5,738)	(364,568)	(433,214)	10,028
Unrealized gains (losses)	<u>39,684</u>	<u>4,070</u>	<u>194,569</u>	<u>238,323</u>	<u>604,248</u>
Total investment return	<u>\$ 3,039</u>	<u>\$ 9,511</u>	<u>\$ 12,450</u>	<u>\$ 25,000</u>	<u>\$ 809,954</u>

Investments are composed of the following:

	<u>2016</u>	<u>2015</u>
Money market, invested cash	\$ 749,728	\$ 438,496
Government Agency and bonds	237,818	315,894
Corporate bonds	3,060,270	2,940,691
Fixed income	37,759	303,773
Equities	8,695,114	9,005,776
Foreign assets	490,558	937,190
Mutual funds	400,415	287,978
Other	<u>-</u>	<u>15,286</u>
	<u>\$ 13,671,662</u>	<u>\$ 14,245,084</u>

**5. PREPAID EXPENSES**

Prepaid expenses consisted of the following:

	<u>2016</u>	<u>2015</u>
Insurance	\$ 3,291	\$ 3,180
Real estate taxes and sewer	3,154	5,897
Deposit on carpeting	-	21,789
Airfare	9,361	-
Other	<u>909</u>	<u>8,482</u>
Total prepaid expenses	<u>\$ 16,715</u>	<u>\$ 39,348</u>

**6. INVENTORY**

Inventories consist of finished goods for resale. These goods are mostly books, videos and audio tapes. Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method, and market represents the lower of cost or estimated net realizable value.

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**7. US OPERATION ADMINISTRATIVE COSTS**

Field personnel who are part of the field operations are charged a fee to help cover a portion of the home office administrative expenses. The amount charged for the years ended 2016 and 2015 were \$ 446,973 and \$ 453,054, respectively.

**8. LAND, BUILDINGS, AND EQUIPMENT**

Land, buildings, and equipment consisted of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 12,000	\$ 12,000
Office - 7000 Ludlow Street, Upper Darby, PA	498,819	472,030
House - 326 Wayne Avenue, Upper Darby, PA	126,132	126,132
Computers	170,314	166,257
Furniture and equipment	<u>50,861</u>	<u>50,566</u>
Sub-total	858,126	826,985
Less: accumulated depreciation	<u>556,444</u>	<u>526,060</u>
Land, buildings and equipment, net	<u>\$ 301,682</u>	<u>\$ 300,925</u>

Depreciation expense for the years ended 2016 and 2015 was \$30,364 and \$27,463, respectively.

**9. ANNUITIES**

International Service Fellowship has a gift annuity plan whereby donors may contribute assets to the Organization in exchange for the right to receive a fixed dollar annual return during their lifetimes. The difference between the amount provided for the gift annuity and the liability for future payments, determined on an actuarial basis, is recognized as unrestricted contribution income at the date of the gift unless the gift portion is restricted. Income earned on annuity investments and distributions paid are credited and charged respectively against the annual liability.

The monies contributed to International Service Fellowship are held as general assets of the Organization, and the related annuity liability is recorded as a general obligation of the Organization.

The Organization has established an investment account from which distributions to be paid to the annuitant will be made. The basis of the assets in the annuity fund is fair market value.

The liability is computed using life expectancy tables and a reserve factor based on the annuitants age as of March 31, 2016. There was no change during the current year in the discount rates used or assumptions made.

State law requires the Organization to have available \$100,000 plus one-half of the annuity liability in unencumbered assets. As of March 31, 2016, the Organization met this requirement.

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**10. OTHER INCOME**

Other income consists primarily of the following: Income from conferences; fees charged for processing donations for other councils and special projects.

**11. PRINCIPAL ADDITIONS**

Partnerseed is a permanently restricted fund that has been established to cover International Service Fellowship partner administrative costs. The principal of Partnerseed is invested when received. Each quarter, 1% of the investment account balance is transferred to the unrestricted net asset fund to cover the cost of administrative services both in the U.S. and overseas.

**12. ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires the Organization to report information regarding its exposure to various tax positions taken. Management has performed their evaluation and believes there are no unrecognized tax positions that are required to be disclosed.

The Organization's policy is to classify income tax related interest and penalties, if any, in interest expense and other expenses, respectively.

**13. INTERSERVE INTERNATIONAL**

Interserve International is a non-profit organization legally organized in the United Kingdom. Interserve International's purpose is to facilitate the work of Independent National Councils in 18 countries that minister in partnership with the global church amongst the neediest peoples of Asia and the Arab World. International Service Fellowship supports and transacts business with Interserve International routinely; however, there are no common officers. One International Service Fellowship Board Member also serves on the Interserve International Council.

The Finance Director of International Service Fellowship has check signing authority on Interserve International's US bank account in order to assist them and the bank if needed.

All bank account activity is recorded on Interserve International's books and reported by them. All interest earned from the bank account is credited to International Service Fellowship to help defray administrative costs incurred by International Service Fellowship. The interest earned which is immaterial is reported in the statement of activities as other income.

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**14. CONCENTRATIONS OF CREDIT RISK ARISING FROM CASH DEPOSITS IN EXCESS OF INSURED LIMITS**

Cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization has not experienced any losses from maintaining balances in excess of the federally insured limits and considers the risk of total loss of balances exceeding the federally insured amount as remote.

**15. NET ASSETS RELEASED FROM RESTRICTIONS**

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of other events specified by donors. Income from permanently restricted net assets that are not restricted by the donor was released and available for general use by the Organization.

	<u>2016</u>	<u>2015</u>
Temporarily restricted net assets released:		
Retiree supplemental	\$ 66,186	\$ 40,679
Short term	65,726	65,507
Appointee	197,739	144,277
Outfitting	7,375	20,416
Payments of Other Councils	424,207	445,885
Other Ministries	39,640	23,682
Payments of special funds	<u>565,787</u>	<u>492,814</u>
 Total temporary restrictions released	 <u>1,366,660</u>	 <u>1,233,260</u>
 Permanently restricted net assets released:		
Dilworth fund	44,706	36,348
Girardeau fund	5,627	6,840
General Ministries	28	2
Hoyt	47,473	18,457
J.A. Coles distribution	142,748	131,459
Partnerseed fund	<u>183,654</u>	<u>176,048</u>
 Total income released	 <u>424,236</u>	 <u>369,154</u>
 Total net assets released from restrictions	 <u>\$ 1,790,896</u>	 <u>\$ 1,602,414</u>

Funds released were used according to the terms and guidelines established by the donor. Dilworth Funds were used to cover the shortfall of a number of overseas Partners who ended the fiscal year with a deficit. Girardeau Funds were used to help cover the shortfall of any US based Partners who ended the fiscal year with a deficit. J. A. Coles Funds were used to support health care projects and workers involved in health care in historic India (this includes India, Bangladesh and Pakistan). Partnerseed Funds were used to cover all of the International Office Administrative Expenses and a small portion of the US Administration.

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**16. ACCRUED RETIREMENT**

International Service Fellowship has frozen its non-qualified defined benefit pension plan for present retirees and those past employees who were vested effective June 1, 1995. The organization now maintains a defined contribution plan for active employees.

The following table sets forth the plan's funded status and amounts recognized in the Organization's statement of financial position:

Net pension cost included the following components:	<u>2016</u>	<u>2015</u>
Service cost - benefits earned during the period	\$ -	\$ -
Interest cost on projected benefit obligation	17,465	18,562
Actual return on plan assets	(346)	(2,850)
Net amortization and deferral	<u>-</u>	<u>(273)</u>
Net periodic pension cost	<u>\$ 17,119</u>	<u>\$ 15,439</u>
Actuarial present value of benefit obligations:		
Accumulated benefit obligation	<u>\$ 281,824</u>	<u>\$ 299,566</u>
Reconciliation of funded status of plan with balance sheet accounts:	<u>2016</u>	<u>2015</u>
Projected benefit obligation for service rendered to date	\$ (281,824)	\$ (299,566)
Plan assets at fair value	<u>-</u>	<u>20,198</u>
Plan assets in deficit of projected benefit obligation	(281,824)	(279,368)
Unrecognized net (gain) or loss due to actuarial experience	(24,481)	(28,975)
Unrecognized net transition obligation or (asset)	-	-
Adjustments required to recognize minimum liability	<u>-</u>	<u>-</u>
(Accrued) or Prepaid pension cost	<u>\$ (306,305)</u>	<u>\$ (308,343)</u>

The weighted-average discount rate used in determining the actuarial present value of the projected benefit obligation was 6.25 percent in 2016 and 6.25 percent in 2015. The long term rate of return on plan assets was 7.00 percent net of expenses. The following table illustrates the pension plan's weighted-average asset allocations at the end of the year:

Cash and cash equivalents	100%
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The expected return on plan assets is based on historical experience and by evaluating input from the trustee managing the plan's assets. The expected return on plan assets is also impacted by the target allocation of assets, which is based on the goal of earning the highest rate of return while maintaining risk at acceptable levels.

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**16. ACCRUED RETIREMENT (continued)**

The plan strives to have assets sufficiently diversified so that adverse or unexpected results from one security class will not have an unduly detrimental impact on the entire portfolio.

The following table shows estimated future benefit payments expected to be paid from the plan:

<u>For the year ending:</u>	<u>Pension Benefits</u>
2017	\$ 33,473
2018	31,350
2019	30,233
2020	28,887
2021	26,521
2022 thru 2024	105,600

The measurement date used to determine the periodic pension cost was March 31, 2015, while the measurement date used to determine the accumulated benefit obligation was March 31, 2016. Total benefits paid to participants during 2016 and 2015 were \$39,356 and \$53,410.

Prior to the defined benefit plan being frozen in 1995, funding to the plan was provided by the Organization. There hasn't been any employer contributions made since the plan was frozen; and as of March 31, 2016, there are no assets available to fund the plan.

**17. ACCRUED DEFINED CONTRIBUTION BENEFITS**

International Service Fellowship sponsors a non-qualified defined contribution pension plan covering substantially all of its employees. The plan was frozen as of December 31, 2008.

International Service Fellowship is the custodian for this fund and for the years ended March 31, 2016 and March 31, 2015, reported investment assets of \$3,749,875 and \$3,922,225, respectively, along with a liability in the same amount. Activity within the plan was recorded against the liability account, not against current operations.

**18. PENSION PLAN**

The Organization maintains a 401k retirement plan covering substantially all full-time employees. A monthly contribution of \$200 per adult is invested on their behalf. Overseas partners who are single with at least 15 years of service receive an additional \$75 per month. Overseas couples with at least 15 years of service receive an additional \$100 per month.

Total employer contributions made into the plan during the fiscal year was approximately \$233,925 and \$228,750 for the years ended March 31, 2016 and 2015, respectively.

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**19. NET ASSETS END OF YEAR**

Unrestricted net assets consisted of the following:	<u>2016</u>	<u>2015</u>
Building and equipment	\$ 301,682	\$ 300,925
Board designated funds:		
Furlough	311,509	
U.F.C.S. International	<u>81,124</u>	
Total Board designated	392,633	361,215
Unrestricted	<u>475,424</u>	<u>333,571</u>
Total unrestricted net assets	<u>1,169,739</u>	<u>995,711</u>

Temporarily restricted net assets are available for the following purposes:

Legacies	107,309	65,762
Commentary fund	18,401	16,296
Other Councils	(16,556)	(22,922)
Special Projects	564,442	635,635
Other	198,227	357,705
Other Ministries	<u>16,410</u>	<u>24,801</u>
Total temporarily restricted net assets available	<u>888,233</u>	<u>1,077,277</u>

Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from the assets is used to support the Organization's general activities. The permanently restricted net assets are comprised of the following:

Dilworth fund	866,292	917,418
Hoyt fund	529,973	556,574
Girardeau fund	285,814	288,941
General Ministries fund	22,190	22,162
J. Ackerman Coles fund	2,180,843	2,337,308
Partnerseed fund	<u>3,953,499</u>	<u>4,099,429</u>
Total permanently restricted net assets	<u>7,838,611</u>	<u>8,221,832</u>
Total net assets	<u>\$ 9,896,583</u>	<u>\$10,294,820</u>

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**20. ENDOWMENT NET ASSETS**

The Organization's endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds, including funds designated to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Current GAAP provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") and improves disclosure about an organization's endowment funds regardless of whether the organization is subject to UPMIFA. The Commonwealth of Pennsylvania has not adopted UPMIFA but rather has enacted Pennsylvania Act 141 ("PA Act 141"). PA Act 141 permits an organization's trustees to define income as a stipulated percentage of endowment assets (between 2% and 7% of the fair value of the assets averaged over a period of at least three preceding years) without regard to actual interest, dividend, or realized and unrealized gains.

The Organization classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation on the fund, the purposes of the organization and the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the organization, and the endowment fund policies of the organization.

As of March 31, 2016 and 2015, the endowment fund was composed of the following:

	<u>Permanently Restricted</u>
Investments	<u>\$ 7,838,611</u>

Changes in endowment assets were as follows for the years ended March 31, 2016 and 2015, respectively:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 8,221,832	\$ 7,866,553
Contributions	28,565	56,180
Investment income	(182,119)	157,638
Net appreciation (depreciation)	194,569	510,615
Amounts appropriated for expenditure	<u>(424,236)</u>	<u>(369,154)</u>
Ending balance	<u>\$ 7,838,611</u>	<u>\$ 8,221,832</u>

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**21. LINE OF CREDIT**

The Organization has a working capital line of credit arrangement with Univest National Bank & Trust, with interest stated at 3.50%. The line of credit is unsecured for \$200,000 with an available balance of \$195,833. At March 31, 2016 the balance owed on the line of credit was \$4,167. Univest National Bank & Trust reserves the right to demand payment on the line of credit at an time, whether or not a default has occurred.

**22. SUBSEQUENT EVENTS**

Management has evaluated subsequent events and transactions through August 21, 2016, which is the date on which the financial statements were available to be issued. No events or transactions that require disclosure or recognition were identified.